United Nations A/67/789

General Assembly

Distr.: General
11 March 2013

Original: English

Sixty-seventh session
Agenda item 130
Programme budget for the biennium 2012-2013

Revised estimates relating to section 34 of the programme budget for the biennium 2012-2013 for remediation work in the aftermath of storm Sandy

Report of the Advisory Committee on Administrative and Budgetary Questions

Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Secretary-General on revised estimates relating to section 34 of the programme budget for the biennium 2012-2013 for remediation work in the aftermath of storm Sandy (A/67/748). During its consideration of the report, the Advisory Committee met with representatives of the Secretary-General, who provided additional information and clarification, concluding with written responses received on 11 March 2013.

2. In his report, the Secretary-General describes the damage sustained to the Headquarters complex as a result of storm Sandy, which hit New York on 29 October 2012. He indicates that the most serious damage resulted from the effects of flooding: the basement was flooded up to the third level, including the chiller rooms, garage parking areas and various offices (A/67/748, para. 2).

After-action review

3. As indicated in paragraph 3 of the report, an after-action review on storm Sandy, commissioned by the Secretary-General and led by the Chef de Cabinet, was completed in December 2012. During its consideration of the report, the Advisory Committee was briefed on the key recommendations emanating from the review, which touched on governance issues, information and communications technology, physical infrastructure, communications and support to staff. Upon request, the Committee was provided with a copy of the review document.

4. The Advisory Committee recalls that, in its most recent report on the organizational resilience management system, it recommended that, in addition to

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full cost estimates of the damages incurred as a result of storm Sandy and information on insurance coverage for those damages, the General Assembly request the Secretary-General to submit to it a report on lessons learned from the organizational response to the storm, including proposals to address any shortcomings identified (A/67/608, paras. 28 and 30). **The Advisory Committee reiterates its earlier recommendation and trusts that the above-mentioned after-action review document, as well as detailed information on the lessons learned regarding, inter alia, the functioning of the United Nations website in emergency situations, will be provided to the General Assembly at the earliest opportunity.**

Insurance coverage for flood damage

5. The Organization's insurance coverage for the damage sustained during storm Sandy is described in paragraphs 5 to 9 of the report of the Secretary-General. The total coverage for flood damage amounts to $150 million, split between two complementary insurance policies, as follows: (a) $100 million under the builders' risk insurance policy, which covers buildings and building materials under construction during the capital master plan that had not yet been handed over from the Office of the Capital Master Plan to the Facilities Management Service at the time of the storm; and (b) $50 million under the global property insurance for buildings, which provides coverage for those areas of the compound that were being managed by the Facilities Management Service at the time of the storm.

6. Table 1 of the Secretary-General's report provides an indication of the total estimated requirements associated with the remediation work. The preliminary estimate of claims to be submitted under the builders' risk insurance policy amounts to $87,851,400 (see A/67/748, table 2, for a detailed breakdown of requirements). Total claims under the global property insurance policy are estimated at $61,069,900 (see tables 3a and 3b for a detailed breakdown of requirements). Table 1 also includes an amount of $6,063,400 for proposed mitigation measures that would not be covered by insurance. These measures are discussed in greater detail in paragraphs 16 to 20 below.

7. The Advisory Committee notes that, as pointed out by the Secretary-General in paragraph 32 of his report, the aggregate of potential insurance claims under the global property insurance policy ($61,069,924) exceeds the available coverage for flooding under that policy by an estimated $11,069,900. Thus, as indicated in paragraph 34 of the report, subject to the outcome of negotiations with the insurers, further resources provisionally estimated at $11,069,900 may be requested at a later date. The Committee notes that the claim amounts cited in the Secretary-General's report are preliminary estimates only. **The Advisory Committee recommends that the General Assembly request the Secretary-General to make efforts to absorb any requirements in excess of the available insurance coverage by seeking further efficiencies and savings during the course of the remediation work.**

Funding considerations

8. In his report, the Secretary-General indicates that, while the insurance company fully supports efforts leading to a speedy cleaning and recovery process, the claims process will be long and complex (A/67/748, para. 5). He states in the summary of the report that most recoveries under the insurance policies will be

received in the biennium 2014-2015, whereas expenditure for remediation activities will be incurred predominantly in 2013. The Advisory Committee was informed during its consideration of the report that if the remediation work did not begin immediately there would be an impact on the relocation of staff within the framework of the capital master plan and the air-conditioning systems might not be operational in time for the summer months.

9. A timeline of cash flow requirements for the remediation work is set out in table 5 of the report. The cash outlay until the end of September 2013 is projected at $92,543,200, increasing to $134,633,000 by the end of 2013, with a further $20,351,700 of projected disbursements during the first quarter of 2014. The Secretary-General indicates that, against those cash flow requirements, an interim claim settlement of $2.5 million has been received to facilitate the clean-up process in the immediate aftermath of the storm, and that the Secretariat is in discussions with the insurers to obtain another interim settlement of $15 million in the next month. While further claim settlements are expected during the second half of 2013, the amounts and timing of such settlements are uncertain (A/67/748, para. 23). Accordingly, in view of the uncertainty regarding cash flow, the Secretary-General is requesting authority to enter into commitments up to the amount of $146,421,300 (representing the aggregate damages of $148,921,300 less the interim settlement of $2.5 million already received) for the biennium 2012-2013 (ibid., para. 24).

10. In order to finance the immediate cash flow requirements, the Secretary-General is proposing to use the Working Capital Fund as a bridging mechanism (A/67/748, para. 25). He indicates in his report that, historically, the Secretary-General has been authorized by the General Assembly to advance such sums as may be necessary from the Fund to finance, inter alia, miscellaneous self-liquidating activities (ibid., para. 27).

11. Upon enquiry, the Advisory Committee was informed that, in each biennium, the General Assembly has adopted a resolution relating specifically to the use of the Working Capital Fund. In the most recent such resolution, 66/250, the Assembly established the Fund in the amount of $150 million for the biennium 2012-2013 and authorized the Secretary-General to advance from it such sums as may be necessary to:

(a) Finance budgetary appropriations pending the receipt of contributions;

(b) Finance commitments duly authorized under the provisions of the resolutions adopted by the General Assembly, in particular resolution 66/249 relating to unforeseen and extraordinary expenses;

(c) Finance miscellaneous self-liquidating purchases and activities which do not exceed $200,000, with advances in excess of that amount requiring the prior concurrence of the Advisory Committee;

(d) Finance, with the prior concurrence of the Advisory Committee, payments of advance insurance premiums where the period of insurance extends beyond the end of the biennium in which payment is made;

(e) Enable the Tax Equalization Fund to meet current commitments pending the accumulation of credits.

12. The Advisory Committee was also informed, upon enquiry, that items (a), (c), (d) and (e) above were cash flow bridging mechanisms and that item (b) related to

events that could not have been foreseen when the programme budget was proposed. While the Working Capital Fund had not, to date, ever been used as a bridging mechanism to finance insurance claims, each of the scenarios foreseen in items (a) to (e) above covered, in the view of the Secretary-General, elements of the circumstances currently being faced by the Secretariat and therefore constituted, in this case, a reasonable precedent for recourse to the Fund.

13. Upon enquiry, the Advisory Committee was further informed that resolution 66/250 also provided that, should the balance of the Working Capital Fund prove inadequate to meet the purposes normally related to its utilization, the Secretary-General was authorized to utilize, in the biennium 2012-2013, cash from special funds and accounts in his custody, under the conditions approved by the General Assembly in its resolution 1341 (XIII) of 13 December 1958. In that connection, following the 1331st plenary meeting of the Assembly in September 1965, the Secretary-General had established the United Nations Special Account, into which voluntary contributions had been received and credited. Subsequently, in its resolution 3049 A (XXVII) of 19 December 1972, the Assembly had requested the Secretary-General to establish a special account under regulation 6.6 of the Financial Regulations of the United Nations, into which voluntary contributions could be paid and used for the purpose of clearing up the past financial difficulties of the Organization and especially for resolving the short-term deficit. In the same resolution, the Assembly had also requested that the Secretary-General merge the United Nations Special Account established by the Assembly in 1965 into the new one. The Advisory Committee was also informed, upon enquiry, that, historically, the Special Account had been used to supplement the Working Capital Fund to meet the day-to-day cash requirements of the Organization. Cash from the account had been used in November and December 2012. The balance of the Special Account as at 27 February 2013 stood at $259 million.

14. **The Advisory Committee has no objection to the utilization of the Working Capital Fund, and potentially the Special Account, as a cash flow bridging mechanism pending the receipt of insurance settlements. However, bearing in mind that the Organization's monthly cash holdings in 2012 were all considerably lower than in 2011, that in October 2012 it was necessary to draw funds from the Working Capital Fund to continue operations (see A/67/639, para. 10) and that cash from the Special Account was used in November and December 2012, the Committee expects that the Secretary-General will closely monitor the cash position of the Organization in order to ensure that operations are not put at risk by this course of action.**

15. In paragraph 30 of his report, the Secretary-General proposes that, given the magnitude of the resource requirements and the multi-year nature of the remediation work, a separate and distinct multi-year special account be established for insurance recovery and expenditures relating to damage in the aftermath of the storm, in accordance with the provisions of regulations 4.13 and 4.14 and rule 104.3 of the Financial Regulations and Rules of the United Nations. **The Advisory Committee recommends that the General Assembly endorse the establishment of the multi-year special account until 31 December 2015. Should it appear likely that the insurance claims process will continue beyond that date, the Secretary-General would need to revert to the Assembly in a timely manner to request an extension of the account.**

Mitigation measures

16. In his report, the Secretary-General indicates that in the after-action review (see paras. 3 and 4 above) it was recommended that specific steps be taken during the recovery process to reduce the vulnerability of Headquarters to future flooding events. Those steps, referred to in the Secretary-General's report as mitigation measures, would consist of waterproofing critical electrical rooms in the third basement, relocating the electrical rooms from the fourth and fifth basements to the third basement and relocating the automatic fire pumps from the third basement to the second basement (A/67/748, para. 19). The Advisory Committee notes from paragraph 31 of the report that, while the improvements in the basement levels are necessary, preventive actions, they are enhancements, and thus not claimable under the United Nations insurance programmes. Total resource requirements for the measures, which would result in revised estimates relating to section 34, Construction, alternation, improvement and major maintenance, of the programme budget for the biennium 2012-2013, amount to $6,063,400 (A/67/748, para. 20).

17. Upon enquiry, the Advisory Committee was provided with more detailed information on the mitigation measures, as well as a breakdown of their costs, as follows:

(a) $1,079,100 for the waterproofing of critical electrical rooms in the third basement, waterproofing to protect the backup modular chiller plant, including the installation of water-resistant doors, and the application of a waterproofing membrane on the floor, walls and subpumps. This would reduce future vulnerability to flooding by creating a compartment in situ to protect electrical components;

(b) $3,537,200 for the waterproofing of critical electrical rooms, including the main chiller plant electrical room, the emergency power substation room and the chiller plant electrical control room, as well as the relocation, where cost-effective, of critical electrical equipment from the fourth and fifth basements to new waterproof rooms in the third basement;

(c) $1,447,100 for the relocation of the manual and automatic fire pumps to the second basement, the trapezing of electrical transformers from the ceilings and the raising of electrical panels. These measures have been recommended by the Organization's engineers in view of the criticality of the fire pumps for the safety of personnel.

18. Upon enquiry, the Advisory Committee was also informed that the proposed mitigation measures would provide waterproofing to at least 42 inches (107 centimetres) above the high water levels experienced during storm Sandy in the five key rooms in the third basement. The table below reflects the high water levels experienced during the storm and the levels of waterproofing proposed as part of the mitigation measures:

Room	*High water level experienced during storm Sandy*	*Proposed level of waterproofing*
Chiller plant control room/critical chiller plant equipment room	6 inches (15 centimetres)	At least 48 inches (122 centimetres)
Main chiller plant electrical room	6 inches (15 centimetres)	At least 48 inches (122 centimetres)

Room	*High water level experienced during storm Sandy*	*Proposed level of waterproofing*
Backup chiller plant electrical room	20 inches (51 centimetres)	At least 62 inches (157 centimetres)
Backup chiller plant room	20 inches (51 centimetres)	At least 62 inches (157 centimetres)
Chiller emergency substation room	6 inches (15 centimetres)	At least 48 inches (122 centimetres)

19. In the Secretary-General's view, it would be prudent to undertake the mitigation measures now, given that, following the renewal of the global property insurance policy in February 2013, the sublimit for flood damage has decreased from $50 million to $20 million (see also para. 21 below). The Secretary-General therefore asserts that, absent those measures, the United Nations would run the risk of significant, uninsurable financial exposure.

20. **The Advisory Committee agrees with the Secretary-General that it would be prudent to take the above-mentioned mitigation measures now, particularly in view of the decreased insurance coverage for flood damage. The Committee recommends that the General Assembly request the Secretary-General to make efforts to absorb the additional requirements of $6,063,400.**

Future insurance coverage

21. As indicated in paragraph 19 above, the global property insurance policy was renewed in February 2013. Upon enquiry, the Advisory Committee was informed that the flood sublimit for United Nations Headquarters had originally been reduced to $10 million, but that the Organization had chosen to purchase excess flood coverage in the amount of $10 million, bringing total insurance coverage for flood damage to $20 million. During its consideration of the Secretary-General's report, it was clarified to the Committee that storm Sandy had affected the market for flood insurance in the New York area and that, despite the Secretariat's best efforts, it had not been possible to secure additional coverage beyond $20 million. The Secretariat assured the Committee that it would continue to monitor developments in the insurance market with a view to identifying opportunities to further increase the Organization's flood coverage.

22. **The Advisory Committee recognizes the constraints facing the Organization in terms of securing insurance against flood damage in the wake of storm Sandy. Nevertheless, the Committee recommends that the General Assembly request the Secretary-General to closely monitor the insurance market with a view to purchasing additional coverage if and when it becomes available at a reasonable cost. More generally, the Committee stresses the importance of ensuring that all United Nations premises are adequately insured against all types of risk.**

Accountability issues

23. The Advisory Committee was informed, upon enquiry, that the officer ultimately accountable for implementation of the remedial measures described in the

Secretary-General's report was the Under-Secretary-General for Management. The Assistant Secretaries-General of the implementing offices within the Department of Management would be accountable to the Under-Secretary-General for Management for the measures in their respective areas of responsibility, meaning that the Controller would be accountable for the insurance claims process and the Executive Director of the capital master plan would be accountable for implementation of the mitigation measures not covered by insurance.

24. With specific reference to the insurance claims process, the Advisory Committee was also informed that the Department of Management would rely heavily on the timely submission of accurate insurance-related documentation from the other departments affected, namely the Department for General Assembly and Conference Management, the Department of Safety and Security, the Department of Peacekeeping Operations, the Department of Field Support, the Department of Public Information, the Department of Political Affairs and the Executive Office of the Secretary-General. As such, those departments shared responsibility and accountability for the successful completion of the insurance claims process.

Action to be taken by the General Assembly

25. **Taking into account its comments and recommendations in the paragraphs above, the Advisory Committee has no objection to the course of action proposed in paragraph 36 of the Secretary-General's report.**